APPROVED
April 15, 2010

BUDGET REVIEW COMMISSION
APPROVED MINUTES

THURSDAY, APRIL 1, 2010

CITY HALL KIVA FORUM
3939 N. DRINKWATER BLVD.
SCOTTSDALE, AZ 85251

PRESENT: Louis Schmitt, Chair
Scott Miller, Vice Chair
Bob Berlese, Commissioner
Eric Borowsky, Commissioner
Martha Ecton, Commissioner
Michael Foster, Commissioner
Donna Reagan, Commissioner (telephonic, to 5:50 p.m.)

STAFF: Bruce Washburn, City Attorney
David Richert, Acting City Manager
David Smith, Interim City Treasurer
Dan Worth, Public Works Executive Director
Marshall Brown, Water Resources Executive Director
Harold Stewart, Economic Vitality Executive Director
Brent Stockwell, Senior Advisor
Judy McIlroy, Budget Manager

CALL TO ORDER / ROLL CALL

Chairman Schmitt called the meeting of the Budget Review Commission to order at 5:05 p.m.

1. Approval of Minutes – February 25, 2010

VICE-CHAIRMAN MILLER MOVED TO APPROVE THE FEBRUARY 25, 2010 BUDGET REVIEW COMMISISON MINUTES. SECONDED BY COMMISSIONER BOROWSKY, THE MOTION CARRIED UNANIMOUSLY WITH A VOTE OF SEVEN (7) TO ZERO (0).

2. Public Comment

Mr. Paul Hanson, Grayhawk resident, spoke in support of the Bond Proposal for the Library, Senior Center, and Parks. He stressed the importance of an off-leash dog park in the north Scottsdale area. An off-leash dog park was supposed to be part of Phase One development, but was overridden in favor of ball fields. Residents are forced to bring their dogs to the greenbelt, which has placed the burden of patrolling the greenbelt for unleashed dogs on the Police Department.

3. Update, Discussion and recommendation regarding Bond 2010 proposed projects

Mr. Worth reviewed the Bond 2010 proposed projects, noting that few changes had been made since the February presentation. Most changes reflected sequencing prioritization by the various divisions responsible for the projects in each of the questions.

Additions to the bond proposal include the acquisition of the Police and Fire Headquarters building originally done in 2005. Originally, $7.5 million worth of certificate of participation financing was issued. Approximately $5 million is outstanding and has yet to be repaid. In addition, a $22 million project to replace the entire Public Safety Radio System, currently in the CIP, has been added. The intent was to issue approximately $20 million in debt through certificate of participation financing to pay the bulk of the costs of the Public Safety Radio System project.

He elaborated that the certificate of participation financing used to date for the Police and Fire Headquarters and that they had considered for the Public Safety Radio System project are obligations that are paid from the General Fund. If these projects are passed as part of the bond package, better terms for repayment could be negotiated.

Commissioner Berlese mentioned that Craig Jackson was recently quoted in the newspaper as having said that he has a plan for constructing the WestWorld multi-use facility and the Equidome without public financing. Mr. Worth was unaware of details of the proposal. He recalled that the City Council discussion was based on the fact that the City has not made any decisions regarding the future for the development of WestWorld and the Bell Road corridor. Mr. Harold Stewart clarified that Craig Jackson has never requested use of the Equidome.

Commissioner Ecton expressed concern about the public being in favor of a $388 million bond based on the underwhelming 60-percent vote on the bed tax.

Commissioner Berlese felt that because of the state of the economy the timing is poor for presenting a bond package to the public. He asked if an alternate plan was in place for implementing critical projects if the bond does not move forward. Mr. Worth said that some projects are integral to other projects and if not in the bond, existing programs would have to be reconfigured. Some projects are reflected in the CIP and others would be eliminated with no source of funding.

Commissioner Foster had concerns about timing but felt that if explained to the voters in a way that is understandable, the bond could be successful. He asked if it would make sense to break large projects out as standalone items with separate questions. The individual projects would have a lower price tag; however, many projects such as the off-leash dog park are of special interest and may fail if standing alone. He recommended that the bond should be put to a vote as proposed, noting that if the bond fails it can be put forth again in the future.

Vice-Chairman Miller was in favor of recommending the bond proposal. He noted that will be six months before the issue will go to the voters and the economy is improving. The bond includes key critical projects and the two controversial projects are in separate questions.

Commissioner Borowsky agreed that the bond should be recommended. He commended staff for prioritizing and grouping projects. He asked if consideration had been given to using Preserve tax dollars to fund the Desert Discovery Center. Mr. Worth said that Preserve Funds could be a possible alternative funding source, but over the life of the Preserve taxes it is anticipated that there will not be sufficient revenue to buy all of the desired Preserve land.

Commissioner Reagan agreed that the bond proposal should be put to the voters.

Chairman Schmitt agreed that the bond proposal should move forward because it includes time-sensitive issues.

It was the consensus of the Commission to recommend approval of the 2010 bond proposal to City Council.

4. Presentation, discussion and approval of February 2010 Financial Report, including an update on recent bond pricing

Mr. Smith presented the February 2010 Financial Report, noting it has already been presented to the Council. He outlined the details of the report.

Year-to-date sources are $1.5 million higher than expected and uses are better than expectation by $7.1 million, so they have a total of $8.6 million more than was projected. The 1% sales tax has yielded $2.3 million more than projected. Performance rate has been better than budgeted consecutively for the last eight months. He reviewed the Operating Budget by division.

Transfers out showed $400,000 positive. The largest transfer out is 80 percent of the bed tax to Tourism and Development/CVB. The number is positive because bed tax revenues have been down.

Mr. Smith reviewed the General Fund sources including the 1% tax, state shared revenues, indirect cost allocation, and aggregate charges. Uses include contractual commodities and purchases, seamless ARRA funding, and lower transfers to the TDC/CVB. General Fund issues remain the same as in February.

Debt security sales completed in March include $50.8 million from the 2000 Bond program and a $75 million debt offering in association with the excise tax for the water and sewer system. In connection with issuing new debt, rating agencies reaffirmed the City's AAA debt rating.

5. FY 10/11 Proposed Operating Budget and Five-Year Capital Improvement Plan Overview

Mr. Richert highlighted the efforts of Ms. McIlroy and Mr. Stockwell, and noted that with their help he and Mr. Smith worked closely on the Five-Year Capital Improvement Plan.

The first budgeting strategy is to evaluate ways to prioritize service and reduce expenditures. Strategies include reducing or eliminating transit routes and holding five vacant positions that have been acquired through attrition as well as reducing the City's $2 million a year water usage, employee related costs, contract services, mailing, supplies, and training. Reductions can be phased over a three-year period. One-time reductions include transfer of healthcare trust fund excess amounts that would be used to pay healthcare premiums. In future years alternative solutions would need to be found to cover the discrepancy. Reducing the contingency reserve to a consistent level will help eliminate the need for further staff layoffs or pay reductions. The superior performance program would remain in place. If implemented, the plan will cost a total of $18.2 million, which is $365,000 more than budgeted.

Mr. Richert reviewed anticipated projects and reductions for the 2011/2012 year, which include a possible agreement with the Salt River Pima/Maricopa Indian Community for relocating auto dealerships, and anticipated needs of the Fire and Police Departments. He stressed the importance of a bond program.

Mr. Stockwell reviewed the proposed budget items.

Mr. Worth reviewed the five-year CIP which was listed by division and detailed the current and proposed projects.

The approximately $7 million of Bond 2000 interest that has accrued will be proposed by the Citizens Bond Review Board as funding for two new fire stations. The philosophy for the General Fund is to start no new projects; existing projects are being reviewed. Some funded projects are being recommended for reallocation.

In response to a question by Commissioner Ecton, Mr. Worth explained that over the course of five years, Water Resources will decrease what they have in the current CIP and will address requirements to deal with problems such as arsenic.

Mr. Smith clarified that in the past unspent General Fund money was swept into the CIP budget to be used for pay-as-you-go projects. Today there are no unspent monies in the General Fund. This means that these projects can only be implemented through Bond 2010.

In response to a question by Vice-Chairman Miller, Mr. Worth explained that the sources reflected for years four and five represent the construction sales tax revenue and interest. Other sources dedicated to particular uses are short-term project-specific grants negotiated for the next few years.

Mr. Worth reviewed the Transportation Fund, which includes money from the 2/10ths percent sales tax, and state and federal funding under various programs. The City has a $26 million IOU from the State Land Department for roads that have been built, which will be reimbursed as land is developed.

Commissioner Berlese asked if the five-year CIP plan anticipated changes to the Clean Water Act. Mr. Brown noted that a few commodities have been incorporated that are anticipated to have a minimal impact the City on TCE and ECE. Changes are not anticipated to affect the Clean Water Act over the next five years. Any costs would be absorbed by the participating companies.

Mr. Worth continued his presentation highlighting new projects. Preservation acquisition is funded by dedicated Preserve tax revenues. The Bond 2010 has an anticipated contingency fund of $61 million.

6. Presentation and discussion of Proposed FY 10/11Rates and Fees

Marshall Brown recalled last year's discussion of rates and fees and the overall rate fee impact for the utility bill of approximately 2.4 percent, which at the time was considered aggressive. The combined number has come in lower this year. He reviewed the rates and fees for enterprise and non-enterprise funds.

In response to a question by Chairman Schmitt, Mr. Brown explained that an outside consultant conducted an asset management evaluation on the above ground and below ground infrastructure conditions and life expectancies as well as rehab and replacement costs. The work order system is now being integrated into an asset management database, tracking replacements and repairs. The asset management study included a certain cost associated with each component with pricing escalators. Chairman Schmitt warned that pricing models do not always reflect actual market conditions.

Chairman Schmitt asked if the current drawdown level is being maintained. Mr. Brown said that safe yields are being maintained. The Ground Water Management Act of the State of Arizona requires all communities to be in compliance with the requirement to put in the ground as much water as is removed, beginning in the year 2025. The City of Scottsdale complied beginning in 2006 for a number of reasons, including unique groundwater challenges.

7. Presentation and discussion of Proposed Financial Policies

Mr. Smith referred the Commission to the Summary of Comprehensive Financial Policies, noting that he grouped recommendations in a comprehensible way for the Commission to contemplate. He recommended the process be implemented in the fall as part of the new fiscal year. He asked the Commission to consider whether there are any other financial management and reporting policies that should be added.

Mr. Smith reviewed items of particular interest to the Commission under Operating Management Policies, including personnel cost reductions through attrition, capital management policies, debt management policies, and reserve policies.

The Commission may consider forming a subcommittee to work with staff on recommendations.

Mr. Stockwell agreed that the review should be conducted in the fall. He suggested sketching out a plan during the upcoming weeks. The alternative service delivery item and the issue of compensation will be included as part of a review item for the Commission once the budget recommendation is complete.

Chairman Schmitt expressed interest in discussing the possibility of establishing guidelines and policies as part of the policy manual.

Vice-Chairman Miller warned that policies that are too specific can have unintended consequences and tie the hands of professionals and elected officials.

8. Discussion, if needed, regarding follow-up information requested at prior Commission meetings, including memorandums on:

a) Municipal Property Corporation debt

Mr. Smith said that the Municipal Property Corporation debt is $154 million associated with WestWorld, SkySong, TPC clubhouse improvements, the Giants Stadium, and two categories of certificate of participation debt. Removing the two COP projects, the Police and Fire Headquarters and the Radio Equipment Project, would move $25 million from the General Obligation Fund to General Obligation Bonds. He explained that because COP financing is taken from the General Excise Tax which drains the General Fund and requires the debt to be serviced, it is not the most effective form of debt. Incentives proposed to close the gap in the 2011/2012 budget are contingent upon release of the General Obligation Funds.

b) Scottsdale Fashion Square Garage Lease Agreement

Mr. Smith reviewed the agreement with Westcor. The obligation is an ongoing drain to the General Fund that is funded through rebate of sales tax revenues collected from Fashion Square. The commitment started at $28 million and has grown to $35 million because of the 9% per year interest rate. The obligation runs for another 18 years and at that time the remaining balance is forgiven. Efforts are being made to find an alternative solution for the obligation.

9. Discussion and possible action on draft agenda for April 8, 2010 meeting.

Mr. Stockwell highlighted April 8th agenda items, noting that information for budget items will be available on the website for citizens. He reviewed the calendar, pointing out that additional dates were scheduled for flexibility. The joint meeting with City Council is scheduled for May 4.

ADJOURNMENT

With no further business to discuss, the Budget Review Commission adjourned at 7:44 p.m.

Respectfully submitted, A/V Tronics, Inc. DBA AVTranz.	Reviewed by: Brent Stockwell, Senior Advisor

Officially approved by the Budget Review Commission on April 15, 2010.